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SASKATCHEWAN

Report of the Provincial Auditor

to the Legislative Assembly
of Saskatchewan

Understanding the Finances of the Government

2004 Report
Volume 2

Provincial Auditor Saskatchewan

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Vision

We envision effective, open, and accountable government.

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We serve the people of Saskatchewan through the Legislative Assembly by fostering excellence in public sector management and accountability.

Provincial Auditor Saskatchewan

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SASKATCHEWAN

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104-07325/

August 20, 2004

The Honourable P. Myron Kowalsky
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2004 Report - Volume 2*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act*.

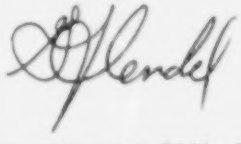
Respectfully yours,

Fred Wendel, CMA, CA
Provincial Auditor

/dd

Foreword

I am pleased to present my *2004 Report – Volume 2* to the Legislative Assembly. This Report focuses on understanding the finances of the Government. Later this year, I will present Volume 3. Volume 3 will include the results of our work at government organizations with years ended March 31, 2004.



Regina, Saskatchewan
August 20, 2004

Fred Wendel, CMA, CA
Provincial Auditor

Understanding the Finances of the Government

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Executive summary

In this report, we measure the financial condition of the Government by using indicators from a research report commissioned by The Canadian Institute of Chartered Accountants. First, we measure whether the Government is living within its means. Second, we measure the Government's flexibility to meet rising commitments by increasing its revenues or increasing its accumulated deficit. Third, we measure the extent to which the Government relies on money from the Federal Government to pay for existing provincial programs.

Using these indicators, we conclude that the state of the Government's finances remained stable over the past year. In 2004, the Government spent $147 million more than it raised in revenue. However, the provincial economy grew by 5.2% in 2004. As a result, the accumulated deficit as a percentage of GDP decreased from 27% to 25%. Also, interest costs remained stable at 12% of revenue and the Government relied less on the Federal Government to pay for programs. Overall, Saskatchewan's finances continue to compare favourably with most provinces.

Significant risks to the Government's financial condition continue. Saskatchewan's accumulated deficit of $9.3 billion is large for our population of one million people. Also, Saskatchewan is vulnerable to the risks of low commodity prices, high interest rates, and adverse weather. For example, the crop insurance program protects participating farmers against crop losses due to adverse weather conditions. The Government does not limit its exposure to large crop insurance payouts. As a result, adverse weather conditions have significantly affected the Government's annual financial results by nearly $860 million over the past three years.

We commend the Government for publishing its first financial plan for the entire Government for 2005 in March 2004. The plan will help legislators and the public to understand the impact of the budget on the entire Government's financial position and on the affordability of new and existing programs. Also, as actual results are published, legislators and the public will be able to assess whether the Government's financial performance is better or worse than what was planned.

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Glossary

Annual surplus or deficit – is the difference between revenues and expenditures in one year. This measure shows the extent to which revenues raised in the year were sufficient or insufficient to meet expenditures in that year.

Accumulated deficit (net debt) – is the sum of all annual deficits and surpluses. This deficit is equal to the difference between total liabilities and total financial assets.

Capital assets -- include land, buildings, equipment, and other infrastructure such as roads and dams. These assets are a key component in the delivery of government programs and provide on-going value to the public. Capital assets have a useful life of greater than one year.

Financial assets – are cash and other assets convertible to cash which are not intended for consumption in the normal course of operations, but which could provide resources to pay liabilities or finance future operations. Examples include claims on outside organizations, investments in marketable securities, and inventories for resale.

General Revenue Fund – is a special purpose fund that the Government uses to pay for most of the programs it provides. The financial statements of the General Revenue Fund reflect only part of the Government's activities. The Government sets out a financial plan for the Fund in its annual budget. Transfers to and from other organizations that the Government controls impact the financial results of the General Revenue Fund.

Government business enterprises – are self-sufficient Crown corporations that have the financial and operating authority to sell goods and services to individuals and non-governmental organizations as their principal activity. Examples include SaskPower, SaskEnergy, SaskTel, and the Liquor and Gaming Authority. Their financial results are included in Schedule 3 to the summary financial statements.

Government service organizations – are organizations that are controlled by the Government, and are not government business enterprises. A listing of government service organizations is provided in Schedule 15 to the summary financial statements.

Gross domestic product (GDP) – is a measure of the value of the goods and services produced in a jurisdiction in one year.

Interest bite – measures interest costs as a percentage of revenue and is an indicator of the state of governments' finances. The indicator shows the extent to which a government must use revenue to pay interest costs rather than to pay for programs and services.

Liabilities – are amounts owed. Liabilities include bonds and debentures, pension obligations, and a variety of other payables and claims.

Own source revenue – is the revenue raised by a provincial government from sources within the province and, thus, excludes revenue transferred to a provincial government from the Federal Government.

Summary financial statements – is a report of the financial results of all organizations that the Government uses to provide goods and services to the public. The summary financial statements combine the financial activity of all government organizations including departments, Crown corporations, agencies, boards, and commissions, etc.

Key financial and economic indicators for Saskatchewan

(derived from the Government's summary financial statements)

(in millions of dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Annual Surplus (Deficit)	(752)	(1,676)	(900)	(281)	141	563	545	326	69	406	461	(483)	(654)	(147)
Accumulated Deficit	7,879	9,555	10,455	10,736	10,595	10,032	9,487	9,161	9,092	8,686	8,225	8,708	9,284	9,296
Gross Domestic Product (GDP)	21,491	21,821	21,202	22,886	24,700	26,773	29,222	29,359	29,521	30,867	33,630	33,672	34,716	36,519

(in percentages)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Accumulated Deficit as a % of GDP	37	44	49	47	43	37	32	31	31	28	24	26	27	25
Interest Costs as a % of Revenue	20	21	24	23	22	20	20	19	18	14	13	13	12	12
Annual percentage change in Net Book Value of Capital Assets	N/A	N/A	N/A	N/A	N/A	N/A	1.0	0.8	2.6	1.6	1.2	2.8	2.2	1.2
Own Source Revenue as a % of GDP	17	17	18	18	19	20	18	19	18	18	18	16	17	17
Federal Government Transfers as a % of Own Source Revenue	43	46	37	37	33	19	16	12	21	27	17	28	23	20

Notes
1. The Government's summary financial statements cover the fiscal year ending March 31.
2. As GDP statistics are not available for a fiscal year, we use GDP statistics for a calendar year in our analysis. For example, the GDP statistic in the 2004 column is for the year ended December 31, 2003. The GDP statistics were obtained from the Saskatchewan Bureau of Statistics. These GDP statistics are not adjusted for inflation.
3. N/A is not available.

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Introduction

Legislators, government officials, and the public want to know whether the Government's finances are gaining strength or weakening, and why. Also, many want to know where they can obtain information that can help them make their own assessments.

A sound understanding of the Government's finances is an important ingredient to an informed debate about the issues faced by the Government. Those issues pertain to the affordability of programs and services; the best sources of revenue; and the maintenance of Saskatchewan's infrastructure including its buildings, roads, and dams.

In this report, we set out some financial and economic information to help Saskatchewan people understand the state of the Government's finances. The information is derived from the Government's statistical reports and from its summary financial statements contained in Volume 1 of the Public Accounts. This information is available on the internet at http://www.gov.sk.ca/finance/paccts/default.htm (July 2004). The information in this report is not adjusted for inflation.

In this report, we focus on the status of several financial and economic indicators for the years 1991 to 2004. The Government has prepared summary financial statements since 1992. In Appendix 1, we provide further financial information and analyses in the form of questions and answers. This information is included to assist legislators, government officials, and the public to understand the state of the Government's finances.

Interprovincial comparisons

Our Office is asked how the state of the Saskatchewan Government's finances compares with other provinces. Therefore, we include several graphs that will assist readers to compare the state of Saskatchewan's finances to those of other provinces. The most recent year for which complete information is available for all provinces is the year ended March 31, 2003. This information is one year older than the information used in the rest of this report. Saskatchewan completes its Public Accounts earlier than most other provinces.

Readers of these graphs should be aware that provincial governments are organized differently and that this can result in differences in how sectors of government are reported in their financial information. For example, some provincial governments include the results of health regions in their summary financial statements, while others do not. Also, the characteristics of provincial economies differ. For example, some provincial governments obtain significant revenues from non-renewable resources such as oil and gas, while others do not.

To prepare these graphs, we used Gross Domestic Product (GDP) statistics for the year ended December 31, 2002, prepared by Statistics Canada. This information was compiled for each province and is available on the Internet at: http://www.statcan.ca/english/Pgdb/econ15.htm (July 2004). We also used financial information from the audited summary financial statements prepared for each province for the year ended March 31, 2003.

The state of the Government's finances

The state of the Government's finances remained stable in 2004. In 2004, the Government spent $147 million more than its total revenue. However, the size of the provincial economy grew by 5.2% in 2004. As a result, the accumulated deficit as a percentage of GDP decreased from 27% to 25%. Also, the interest bite[1] of the Government's revenue remained stable at 12% of revenue and the Government relied less on the Federal Government to pay for provincial government programs. In addition, the state of the Government's finances continues to compare favourably with other provinces.

Significant risks to the state of the Government's finances continue. The Government's accumulated deficit of $9.3 billion is large for a population of one million people and recent experience shows that the state of the Government's finances remains vulnerable to the risks of low commodity prices, high interest rates, and adverse weather.

[1] Interest bite is an indicator of the state of governments' finances. The indicator measures interest costs as a percentage of revenue and shows the extent to which a government must use revenue to pay interest costs rather than to pay for programs and services.

One of the risks to manage is the impact of drought on the Government's expenditures. During periods of drought, the Government spends more money on income support programs for farmers and on fire-suppression programs. For example, farmers and the governments of Saskatchewan and Canada share the cost of the crop insurance program. Crop insurance protects participating farmers against crop losses incurred through adverse weather conditions. The Government does not limit its exposure to large crop insurance payouts to farmers. As a result, adverse weather conditions can significantly affect the Government's annual financial results.

Due to the impact of adverse weather conditions, crop insurance payouts were high from 2002 to 2004. In 2002, crop insurance payouts were $331 million. In 2003, crop insurance payouts reached $1.1 billion and in 2004, they were $328 million. These payouts are substantially higher than in 2001 and 2000 when they were $133 million and $95 million respectively.

Because the Government shares the cost of crop insurance with farmers and the Federal Government, the cost to the Government for crop insurance was about $157 million in 2004, $488 million in 2003 and $214 million in 2002. For 2001 and 2000, the cost to the Government for both years combined was about $15 million.

Adverse weather conditions also significantly affect the Government's costs for fire suppression. In 2003, fire suppression costs increased to $115 million compared to $50 million in 2002 and $37 million in 2001. In 2004, fire suppression costs decreased to $76 million due to more favourable weather conditions.

The Government must carefully manage the risks to its future revenues and expenditures. A downturn in Saskatchewan's economy would require the Government to make difficult decisions about revenue raising and spending.

Key indicators of the state of a government's finances

Governments should publish financial and economic information to help people assess:

- The ability of a government to meet its existing program commitments and creditor requirements without increasing its accumulated deficit – **sustainability**.

- The degree to which a government can increase financial resources to respond to rising commitments either by expanding its revenues or by increasing its accumulated deficit – **flexibility**.

- The degree to which a government becomes dependent upon, and thus, vulnerable to sources of funding outside of its control or influence – **vulnerability**.

There are several financial and economic indicators that can help people make these assessments. The trends in these indicators provide insight into the state of a government's finances. The Research Report entitled *Indicators of Government Financial Condition*, commissioned by The Canadian Institute of Chartered Accountants, further describes these indicators.

In this report, we discuss these indicators in the Saskatchewan context. Each indicator can and should be analyzed in detail, combined with other information, and monitored over time. The Government should include such an analysis in its performance reports. Performance reports show planned and actual results. Publishing performance reports would also provide the Government with the opportunity to set out its thinking on the underlying issues, its key results, and its plans for the future.

Five other provincial audit offices and some provincial governments use similar indicators to report on the state of government finances in their jurisdictions. Also, in 2000, The Canadian Institute of Chartered Accountants used similar indicators to measure progress on the state of the Federal Government's finances.

Sustainability

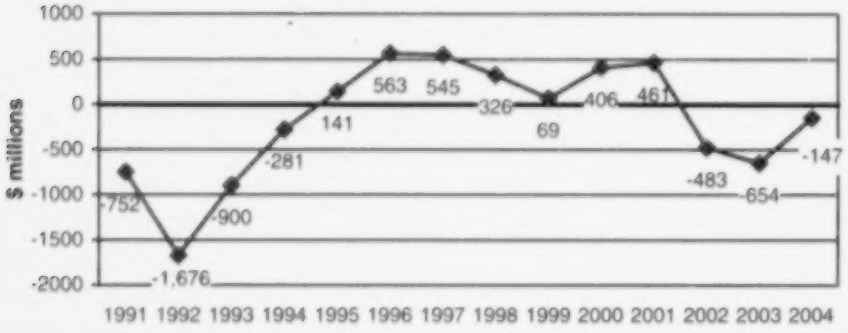
A government's annual surplus or deficit, its accumulated deficit, and a province's gross domestic product (GDP) are important indicators of the state of a government's finances. Each of these indicators provides useful insight into the **sustainability** of a government's revenue-raising and spending practices.

The annual surplus or deficit shows the extent to which a government spends less or more than what it raises in revenue in one fiscal year. In simple terms, it shows whether a government is living within its means.

Graph 1 shows the Government lived beyond its means from 1991 to 1994. During this four-year period, the Government spent $3.6 billion more than the revenue it raised. For the next seven years from 1995 to 2001, the Government lived within its means. During this seven-year period, the Government spent $2.5 billion less than the revenue it raised. The $2.5 billion includes about $0.9 billion of revenue from the sale of investments such as the Government's shares in Cameco. This trend reversed beginning in 2002 and for the three-year period ended in 2004, the Government again lived beyond its means. In this three-year period, the Government spent $1.3 billion more than the revenue it raised.

Graph 1

The Government's Annual Surplus or Deficit

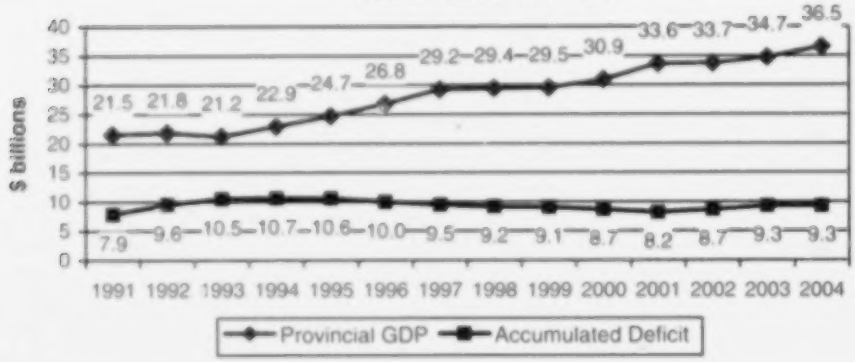


The accumulated deficit is the sum of all annual deficits and surpluses. The Government's accumulated deficit is the amount that current and past generations of Saskatchewan citizens are leaving to future generations of citizens to pay or finance. On March 31, 2004, the accumulated deficit was $9.3 billion (see Graph 2).

The Province's GDP is a measure of the total value of all the goods and services produced in Saskatchewan in one year. The GDP indicates the size of the provincial economy. The Government must manage its revenue-raising and spending practices in the context of the economy of Saskatchewan.

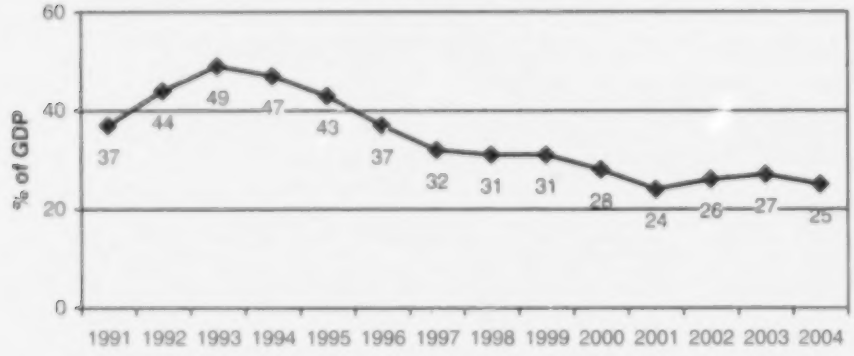
Since 1991, the GDP of Saskatchewan has increased by 70% (unadjusted for inflation). During the same period, the consumer price index increased by 34%. In 2004, the GDP of Saskatchewan was $36.5 billion (see Graph 2).

Graph 2 **The Province's GDP and the Government's Accumulated Deficit**



The financial demands placed on the economy by the Government's spending and revenue-raising practices can be assessed for sustainability by comparing the Government's accumulated deficit as a percentage of the Province's GDP (see Graph 3). This graph provides a measure of how much debt the Government can afford to carry. The thinking behind this measure is that the larger the GDP, the more debt the Government can afford to carry.

Graph 3 **The Government's Accumulated Deficit as a % of GDP**



This graph shows that from 1991 to 1993 the trend in the Government's spending and revenue-raising practices was not sustainable. If that upward trend had continued, the Saskatchewan economy would not have been able to meet the financing needs of a growing accumulated deficit. During these years, the credit rating of the Government worsened. The

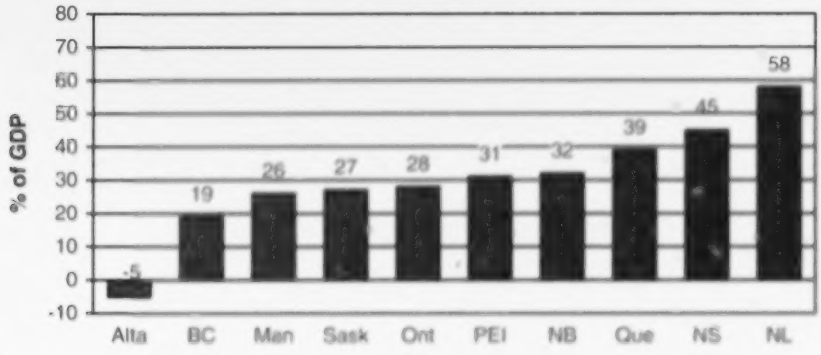
Government had access to fewer sources for borrowing, paid higher interest costs, and was more dependent on equalization payments from the Federal Government.

Saskatchewan's economy has grown over the past fourteen years. Also, between 1995 and 2001, the Government spent less than it received in revenue. As a result, the accumulated deficit as a percentage of GDP decreased. This downward trend enabled the economy to better sustain the demands placed on it by the Government. The public benefited by the improved credit rating of the Government. The Government has more sources for borrowing and pays lower interest costs. In addition, the Government relies less on equalization payments.

In 2004, the accumulated deficit as a percentage of GDP decreased from 27% to 25% because the growth in the economy more than compensated for the fact that the Government spent more than it received in revenue. The decrease for 2004 represents a change from the upward trend from 2002 to 2003 and has been accompanied by a recent improvement in the Government's credit rating. The Government will need to carefully manage its future revenues and expenditures to ensure that the benefits obtained since 1995 are maintained. These benefits include more flexibility in revenue-raising and spending decisions and lower interest costs.

In graph 4, we compare accumulated deficit as a percentage of each province's GDP as at March 31, 2003. This graph shows that Saskatchewan's accumulated deficit as a percentage of Saskatchewan's gross domestic product is the fourth lowest in Canada. At March 31, 2002, Saskatchewan was the third lowest. This means that the Saskatchewan economy is better able to sustain the demands placed on it by the Government than the economies in most other provinces.

Graph 4 **Interprovincial Comparison of Accumulated Deficit as a % of GDP as at March 31, 2003**



Flexibility

A government's interest costs, capital assets, and own source revenues are also important indicators of the state of its finances. Together with a government's accumulated deficit and a province's GDP, these indicators provide insight into a government's **flexibility** in responding to rising commitments. For example, when a government has a large accumulated deficit and high interest costs, it has fewer resources to allocate to programs and services.

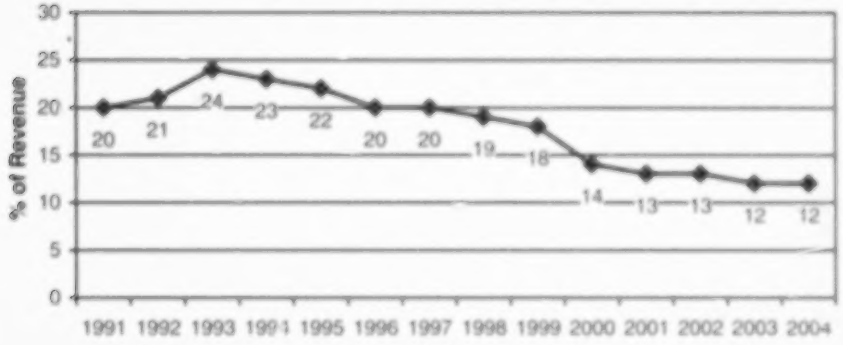
The Government incurs interest costs on its debt of bonds and debentures and its unfunded pension liabilities. At March 31, 2004, the Government's debt of bonds and debentures was $8.7 billion and its unfunded pension liabilities were $4.1 billion. The money to pay interest costs is raised by levying taxes or by charging directly for services. In 2004, the Government's interest costs were $0.9 billion. To put that $0.9 billion in perspective, in the same year, the Government spent $1.1 billion on education and $2.7 billion on health.

The amount of interest costs as a percentage of total revenue, sometimes called the "interest bite," is an important indicator of the state of a government's finances. This indicator shows the extent to which a government must use revenue to pay for interest costs rather than to pay for services.

Graph 5 shows how much of every dollar of the Government's revenue was needed to pay for interest costs. In 1993, twenty-four cents of every dollar was needed to pay for interest costs. Since 1993, the amount of

revenue the Government needed to pay for interest costs has declined. In 2004, twelve cents of every dollar of the Government's revenue was needed to pay for interest costs.

Graph 5 **The Government's Interest Costs as a % of Revenue**

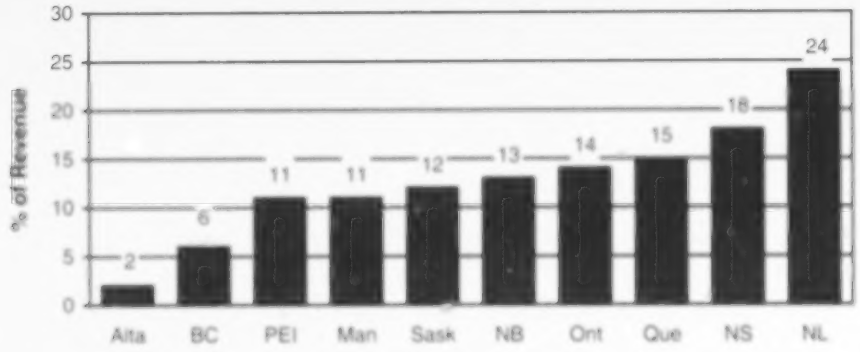


Because of the reduction in the interest bite, the Government can now use more of its revenues to pay for programs and services, and use less of its revenues to pay for the interest costs of debt.

Interest costs peaked in 1995 at $1.3 billion. In 2004, interest costs were $410 million less than in 1995. The reduction in the interest bite is the result of a combination of debt reduction, increased revenue, and lower interest rates. Although the Government's interest costs have been declining, these costs remain significant.

In graph 6, we compare government interest costs as a percentage of government revenue. This graph shows that Saskatchewan's interest costs, as a percentage of revenue, are fifth lowest of the ten provinces at March 31, 2003. Saskatchewan was also fifth lowest at March 31, 2002.

Graph 6 **Interprovincial Comparison of Interest Costs as a % of Revenue as at March 31, 2003**



Graph 7 shows the annual percentage change in the net book value of the Government's capital assets. Governments invest billions of dollars in capital assets such as buildings, equipment, roads, and dams. These assets are essential for the economy and for delivering government services. They are recorded at cost and their value is reduced by amortization. At March 31, 2004, the net book value of the Government's capital assets is $3.8 billion (historical cost of $7.0 billion less accumulated amortization of $3.2 billion).

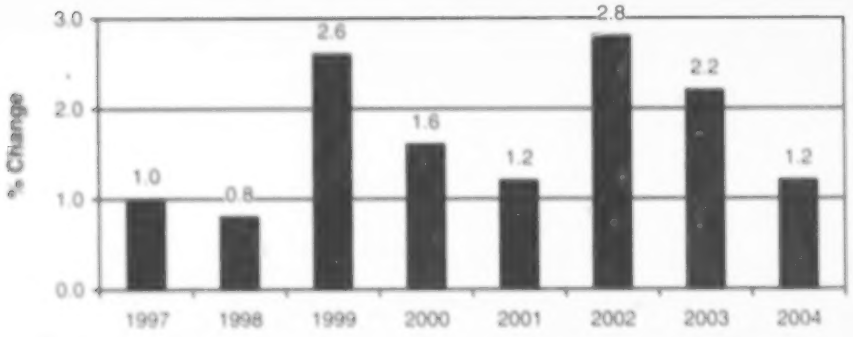
The annual percentage change in the net book value of capital assets is an important indicator because it measures the extent to which a government is maintaining or failing to maintain the capital assets needed to deliver its services. For example, continual decreases in the net book value of capital assets may indicate that a government is not maintaining or enhancing its capital asset base. This can adversely affect service delivery and lead to increased financial burdens on future taxpayers.

Also, the costs of restoring the capital asset base could impair a government's ability to pay for other government services. Although, a failure to maintain essential capital assets can improve a government's financial results in the short term, such deferral of capital spending may lead to higher costs and poorer financial results in future periods.

Graph 7 shows that for the last eight years the Government has increased the net book value of its capital assets. Since March 31, 1996, the net book value of the Government's capital assets has increased by 14%. We have not provided an inter-provincial comparison for this

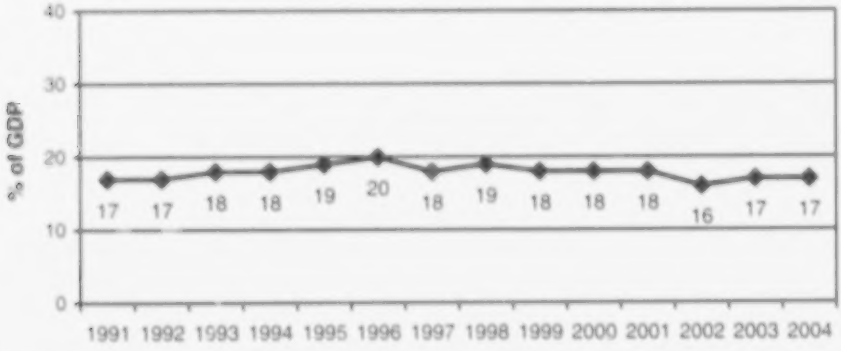
indicator as complete information on capital assets is not yet available for all provinces.

Graph 7 **Annual % Change in Net Book Value of Capital Assets from 1997 to 2004**



Another important indicator of the state of a government's finances is shown by comparing the change in a government's own source revenue to the size of the economy (see Graph 8). This indicator shows the extent of the Government's revenue demands on the Saskatchewan economy. The Saskatchewan Government raises revenue from two general sources. The first revenue source is from within the Province. This source is called "own source revenue." Examples of own source revenue include tax revenue and oil and gas revenues. The second source of revenue is transfers from the Federal Government. Examples of transfers from the Federal Government are equalization transfers and Canada Health and Social transfers (CHST).

Graph 8 **The Government's Own Source Revenue as a % of GDP**

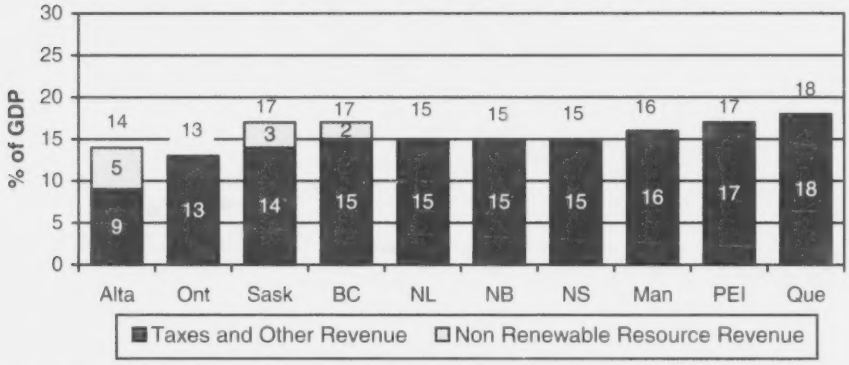


Since 1991, the revenue raised by the Government, as a percentage of GDP from sources within the Province, has remained fairly constant.

In graph 9, we compare provincial governments' own source revenue as a percentage of GDP as at March 31, 2003. This shows the extent of the governments' revenue demands on their economies.

This graph shows that Saskatchewan's own source revenue from taxes and other revenue are third lowest of the ten provinces. At March 31, 2002, Saskatchewan was also third lowest of the ten provinces. In addition, the graph shows that Saskatchewan has higher revenue from non-renewable resources than most other provinces as a percentage of GDP.

Graph 9 **Interprovincial Comparison of Own Source Revenue as a % of GDP as at March 31, 2003**



Vulnerability

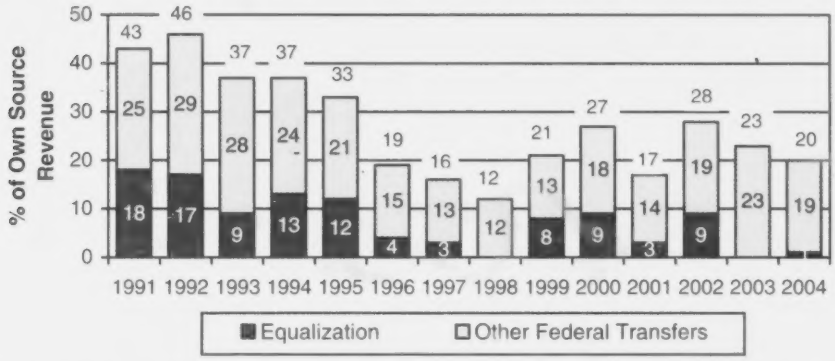
The extent to which a government raises its own revenue from within the province (own source revenue) as compared to the extent to which it receives revenue transfers from the Federal Government provides another important indicator of the state of a governments' finances. This indicator provides a valuable insight into a governments' **vulnerability** to sources of revenue outside of its control. In simple terms, this indicator measures the extent to which a government can manage its financial affairs without having to rely on others.

A significant portion of the Government's revenue consists of transfers from the Federal Government. These revenue transfers are intended to help pay for the costs of such services as health, education, and agriculture. In addition, the Government receives equalization transfers from the Federal Government.

The Federal Government calculates the amount of equalization transfers by comparing the ability of a province to raise revenues with a standard set by the Federal Government. As a result of this calculation, the annual amount of equalization transfer due to Saskatchewan is significantly affected by the performance of other provincial economies.

Since 1991, revenue transfers from the Federal Government have decreased as a percentage of the revenues raised directly by the Saskatchewan Government from sources within the Province (see Graph 10). Graph 10 also shows the fluctuation in equalization and other transfers from the Federal Government. Other transfers include CHST and transfers for education and agriculture.

Graph 10 **Federal Government Transfers as a % of Saskatchewan Government Own Source Revenue**



From 1991 to 2001, revenue transfers from the Federal Government decreased from $1.6 billion to $1.0 billion before rising again to $1.5 billion in 2002, and decreasing to $1.3 billion in 2004. During this period, revenue raised directly by the Government from sources within Saskatchewan has increased significantly. For example, since 1991:

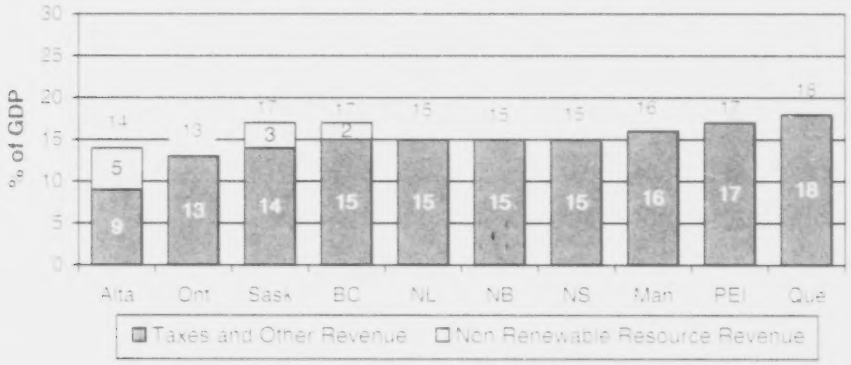
- Taxation revenue increased from $2.0 billion to $3.4 billion in 2004. Over the period, tax revenue increased by 71% while GDP increased by 70%; and
- Non-renewable resources revenue increased from $0.4 billion to $1.1 billion in 2004.

Since 1991, Federal Government transfers as a percentage of the Saskatchewan Government's own source revenue have declined from 43% to 20%. During this period, the Government became less dependent on, and less vulnerable to, sources of revenue outside its control. More

In graph 9, we compare provincial governments' own source revenue as a percentage of GDP as at March 31, 2003. This shows the extent of the governments' revenue demands on their economies.

This graph shows that Saskatchewan's own source revenue from taxes and other revenue are third lowest of the ten provinces. At March 31, 2002, Saskatchewan was also third lowest of the ten provinces. In addition, the graph shows that Saskatchewan has higher revenue from non-renewable resources than most other provinces as a percentage of GDP.

Graph 9 **Interprovincial Comparison of Own Source Revenue as a % of GDP as at March 31, 2003**



Vulnerability

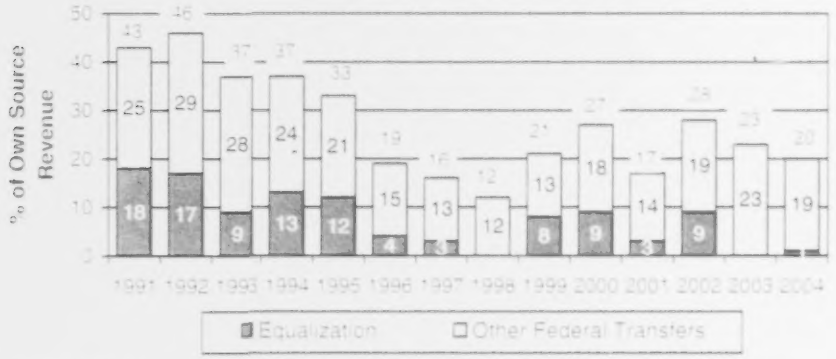
The extent to which a government raises its own revenue from within the province (own source revenue) as compared to the extent to which it receives revenue transfers from the Federal Government provides another important indicator of the state of a governments' finances. This indicator provides a valuable insight into a governments' **vulnerability** to sources of revenue outside of its control. In simple terms, this indicator measures the extent to which a government can manage its financial affairs without having to rely on others.

A significant portion of the Government's revenue consists of transfers from the Federal Government. These revenue transfers are intended to help pay for the costs of such services as health, education, and agriculture. In addition, the Government receives equalization transfers from the Federal Government.

The Federal Government calculates the amount of equalization transfers by comparing the ability of a province to raise revenues with a standard set by the Federal Government. As a result of this calculation, the annual amount of equalization transfer due to Saskatchewan is significantly affected by the performance of other provincial economies.

Since 1991, revenue transfers from the Federal Government have decreased as a percentage of the revenues raised directly by the Saskatchewan Government from sources within the Province (see Graph 10). Graph 10 also shows the fluctuation in equalization and other transfers from the Federal Government. Other transfers include CHST and transfers for education and agriculture.

Graph 10 **Federal Government Transfers as a % of Saskatchewan Government Own Source Revenue**



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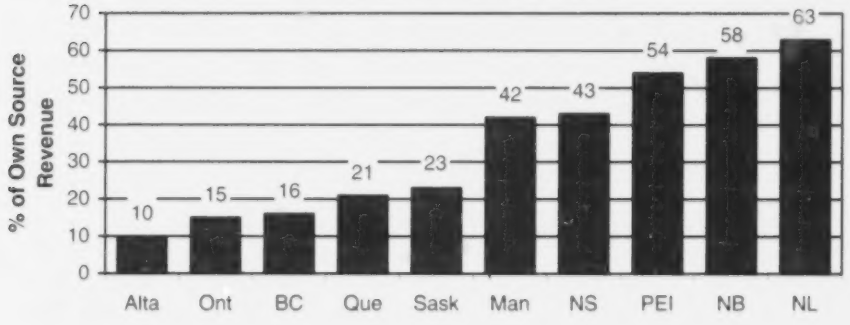
Since 1991, Federal Government transfers as a percentage of the Saskatchewan Government's own source revenue have declined from 43% to 20%. During this period, the Government became less dependent on, and less vulnerable to, sources of revenue outside its control. More

detailed information on trends in the Government's revenues and expenditures is set out in Appendix 2.

In graph 11, we compare Federal Transfers as a percentage of own source revenue at March 31, 2003. This graph shows that Saskatchewan's revenue transfers from the Federal Government as a percentage of own source revenue is fifth lowest of the ten provinces. At March 31, 2002, Saskatchewan was also fifth lowest of the ten provinces.

Graph 11 **Interprovincial Comparison of Federal Transfers as a % of Own Source Revenue as at March 31, 2003**



Appendix 1 – Questions and answers

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In this appendix, we set out other financial information and analyses in the form of questions and answers. This information is included to assist legislators, government officials, and the public to understand the state of the Government's finances.

1. Is the Government making the best use of the public's resources?

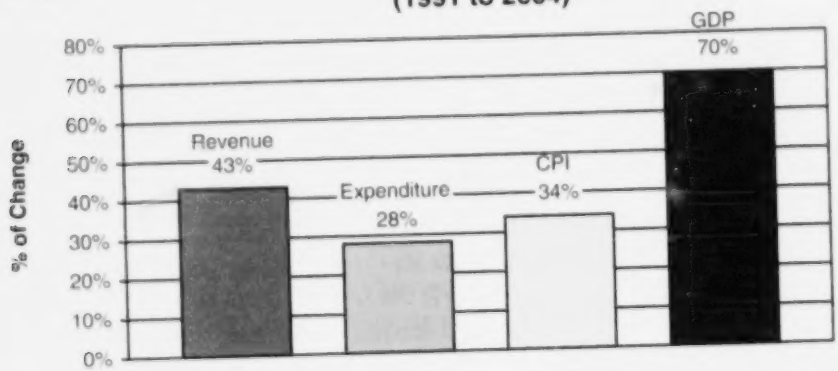
   This is a very difficult question because the answer involves important policy issues related to the role of government and whether individual services are worthwhile. Such issues are best debated among legislators and the public.

2. Is the Government's revenue raising and spending increasing at a rate less than or greater than inflation?

   The following graph compares the percentage changes in revenues and in expenditures to the change in Saskatchewan's consumer price index (CPI) and its gross domestic product (GDP). The revenues, expenditures, and GDP statistics are not adjusted for inflation.

Graph 12

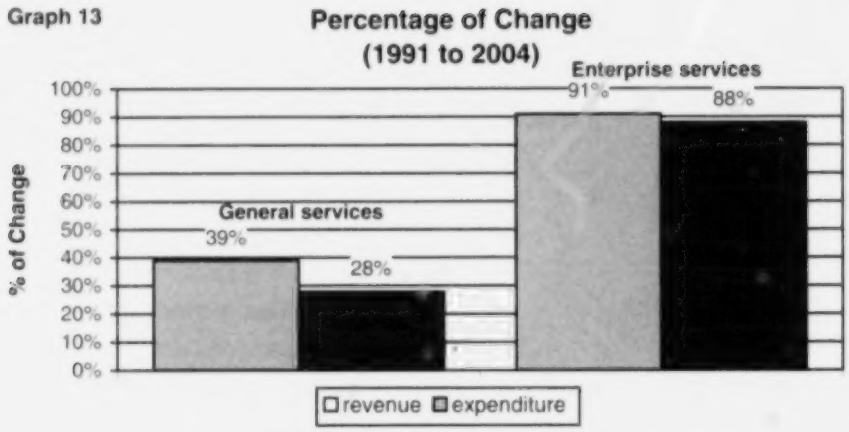
Percentage of Change (1991 to 2004)



3. Is the Government changing the level of activity carried out through its Government business enterprises[2]?

[2] The Government's business enterprises include Crown corporations such as SaskPower, SaskEnergy, SaskTel, and the Liquor and Gaming Authority. They are included in Schedule 3 to the summary financial statements. These enterprises raise revenue through direct charges for goods and services.

Graph 13



As shown in graph 13, from 1991 to 2004, general service revenues increased 39% and general service expenditures increased 28%. General service revenues do not include revenues and expenditures of government business enterprises. In the same period, government business enterprise revenues increased 91% and their expenditures increased 88%. These amounts are not adjusted for inflation.

More detailed information on trends in the Government's revenues and expenditures is set out in Appendix 2.

4. To what extent are the Government's financial results affected by the sale of its investments?

In 1992, the Government recorded a $189 million loss from the sale of shares in Cameco.

In 1996, the Government recorded a $615 million gain from the sale of shares of Cameco, LCL Cable, and ISM.

In 1998, the Government recorded a $175 million gain from the sale of shares in Wascana Energy Inc. and the sale of the Bi-Provincial Upgrader.

In 2000, the Government recorded a $69 million gain from the sale of its interests in Saturn Communications Limited and the Saskfor MacMillan Limited Partnership.

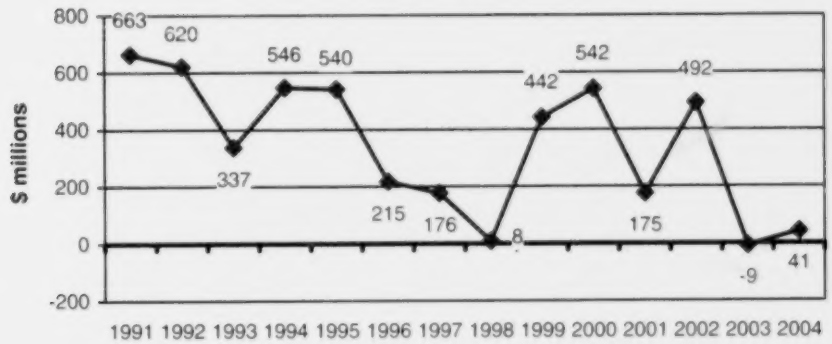
In 2002, the Government recorded a $112 million gain from the sale of its remaining shares in Cameco.

5. How are the Government's finances affected by transfers from the Federal Government for equalization?

The Saskatchewan Government has received transfers for equalization from the Federal Government for many years. The Federal Government calculates the amount of the transfers by comparing the ability of a province to raise revenues with a standard set by the Federal Government. As a result of this calculation, the annual amount of equalization transfer due to Saskatchewan is significantly affected by the performance of provincial economies outside Saskatchewan.

The following graph shows the volatility of equalization transfer revenue recorded in the Government's summary financial statements from 1991 to 2004.

Graph 14 **Equalization Transfer Revenue from 1991 to 2004**



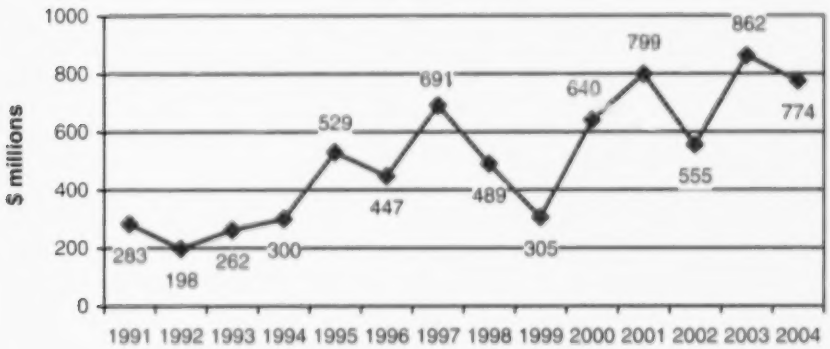
6. What impact have oil revenues had on the Government's revenue?

Oil is traded on the world markets and the price fluctuates due to world supply and demand. In recent years, the price of oil has been subject to extreme price swings resulting in similar swings in the Government's oil revenues. Such revenue swings are beyond the control of the Saskatchewan Government.

As shown in graph 15, the impact of changes in oil and other natural resource royalties are significant to the Government's revenue. However, the Federal Government deducts most oil and other natural resource royalties from amounts due to Saskatchewan for equalization.

Graph 15

Oil Revenue from 1991 to 2004

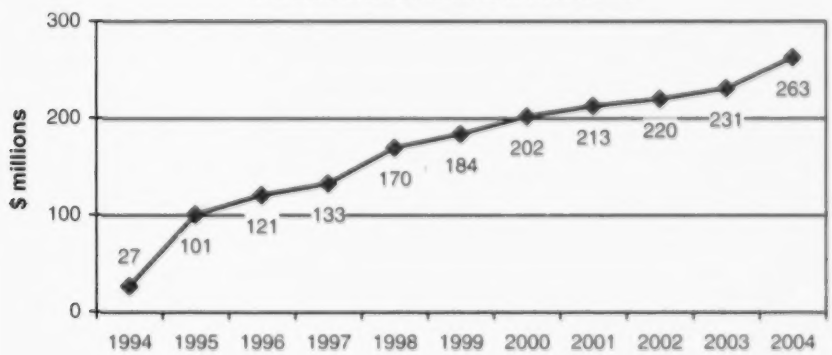


7. What impact have gaming operations had on the Government's finances?

The Government has earned net income from gaming since 1994. Net income is the amount of gaming revenues received by the Government after deducting expenditures for gaming operations. In 1994, the net income from gaming was $27 million. Since then, net income from gaming has increased steadily as shown in graph 16.

Graph 16

Impact of gaming net income on the Government's finances



8. Which items significantly affected the summary financial statements results for 2004?

Federal Government transfer revenue decreased by $145 million from last year. This was mainly due to a decrease in transfer revenue for crop insurance of $411 million, offset by an increase in Canada Health and Social transfers of $82 million, equalization of $50 million and other transfers of $134 million.

Non-renewable resources revenue decreased by $103 million from last year mainly due to lower oil prices. In 2004, oil revenue was $774 million compared to $862 million in 2003 (see page 74 in Volume 1 of the Public Accounts at http://www.gov.sk.ca/finance/paccts/default.htm (July 2004)).

Income from government business enterprises increased by $281 million over last year due to improved results for these enterprises this year.

Agricultural expenditures decreased by $655 million from last year. This was mainly due to reduced expenditures for crop insurance payouts of about $744 million offset by new expenditures for the Canadian Agricultural Income Stabilization program of $98 million.

Finally, health expenditures increased by $172 million from last year due to increased costs for salaries and benefits, drugs and other inflationary increases.

9. How much debt and interest per capita does the Government have?

The debt per capita has decreased from a high of $15,433 at March 31, 1995 to $14,549 at March 31, 2004. As the debt has declined, the annual interest cost per capita has declined from a high of $1,321 at March 31, 1995 to $933 at March 31, 2004. A government's debt equals its total liabilities.

10. How much of the Government's debt in bonds and debentures is payable in foreign currencies?

At March 31, 2004, the Government owed $11.9 billion. Of this amount $0.9 billion or 7% was payable in U. S. dollars.

Government service organizations owed $8.7 billion. Of this amount, $0.6 billion or 7% was payable in U.S. dollars. Government business enterprises owed $3.2 billion. Of this amount $0.3 billion or 9% was payable in U. S. dollars. For further information, see pages 68 to 70 in Volume 1 of the Public Accounts at http://www.gov.sk.ca/finance/paccts/default.htm (July 2004).

11. Why do agriculture expenditures fluctuate so much?

Agricultural spending fluctuates depending on the state of the agricultural economy. The agricultural economy is dependent on prices for commodities that are traded in world markets and that are subject to world supply and demand. The agricultural economy is also affected by trading subsidies paid by foreign governments. Further, the state of the agriculture economy is also dependent on the weather.

In addition, large agricultural services are often cost-shared with the Federal Government. The Federal Government or the Saskatchewan Government can administer these cost-share services.[3] The accounting for cost-share services can have a significant impact on the amount recorded as agricultural expenditures.

For example, if Saskatchewan administers the service, as is done with crop insurance, the Saskatchewan Government shows the total expenditures for the service, even though some of the money to pay for the service came from the Federal Government and farmers. The Saskatchewan Government includes the money from the Federal Government and from farmers as revenue in its financial statements.

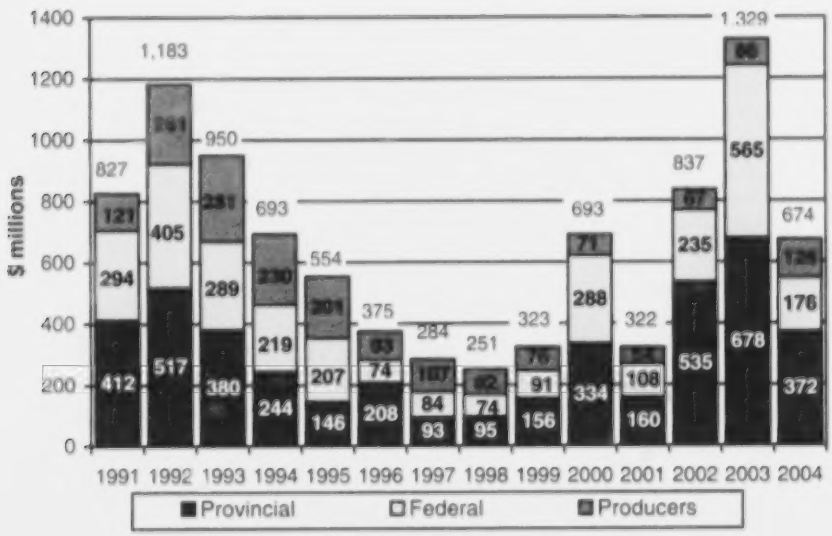
[3] The Department of Agriculture, Food and Rural Revitalization told us that the decision as to which level of government administers the service is made to keep costs low and considers experience in administering similar services.

If on the other hand, as with the Canadian Agricultural Income Stabilization service (CAIS), Saskatchewan does not administer the service, but instead pays its share of the cost to the Federal Government (administrator), then the Saskatchewan Government records only its share of the cost of the service as an expenditure in its financial statements.

The following graph shows the Government's agricultural expenditures from 1991 to 2004. Agricultural expenditures do not include significant Government support provided to the agriculture sector through tax concessions. For example, in the 2004-05 Budget, the fuel tax exemption for farm activity is estimated to be $110 million.

Agricultural expenditures decreased by $655 million from last year. This was mainly due to reduced payments for crop insurance of about $744 million offset by costs for the CAIS program of $98 million.[4]

Graph 17 **Financing Sources for Agriculture Expenses**



[4] In 2003-04 the Government changed its accounting treatment for transfers under the Net Income Stabilization Account (NISA). Graph 17 does not include $46 million of NISA transfers related to years prior to 2004.

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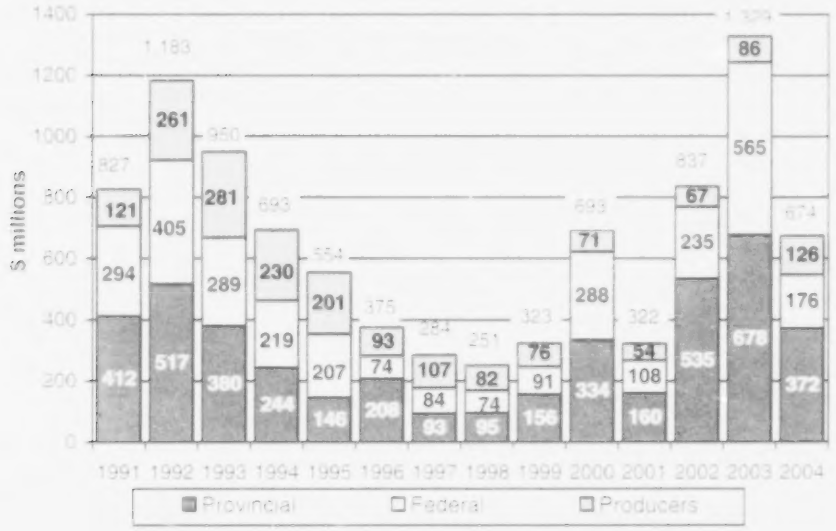

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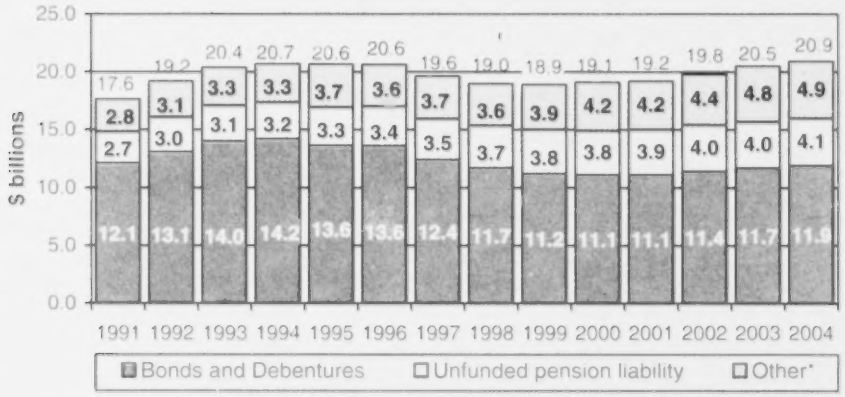
12. How much are the Government's total liabilities including liabilities of Government business enterprises?

Graph 18 shows the Government's total liabilities including liabilities of Government business enterprises from 1991 to 2004. The graph also shows a breakdown of these liabilities between bonds and debentures, unfunded pension liabilities and other liabilities. Other liabilities include trade accounts payable, accrued interest, and unpaid claims for government insurance services. Although the amount of the Government's total liabilities provides important information to understand the Government's financial condition, this report focuses on the Government's accumulated deficit which is a better indicator of the Government's financial condition.

Graph 18

The Government's Liabilities including Liabilities of Government Business Enterprises as at March 31



* Excludes amounts owed by the GRF to the Liquor and Gaming Authority since they are not owed to non-government agencies (in millions: 2004 - $37, 2003 - $23, 2002 - $32, 2001 - $13, 2000 - $674, 1999 - $364, 1998 - $386, 1997 - $451, 1996 - $197, 1995 - $241, 1994 - $140, 1993 - $116, 1992 - $118, and 1991 - $70).

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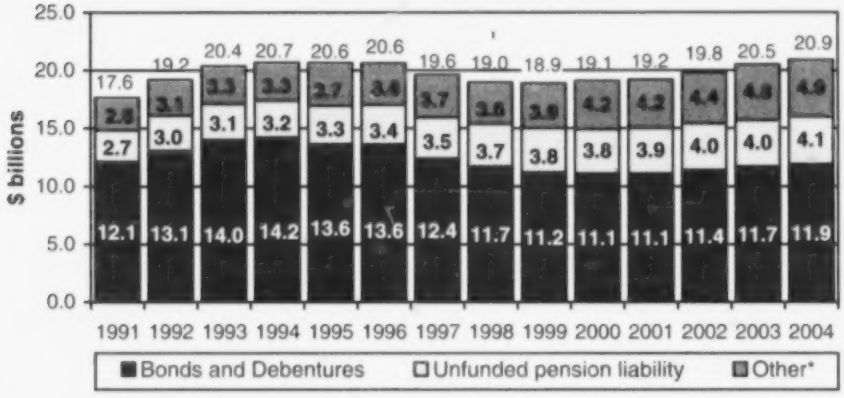

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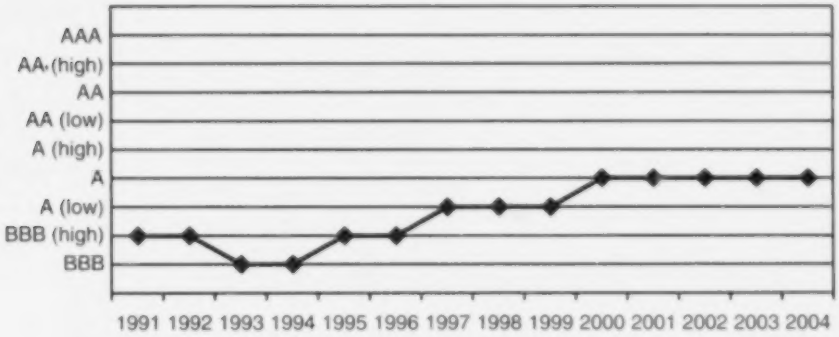
13. How has Saskatchewan's credit rating changed from 1991 to 2004?

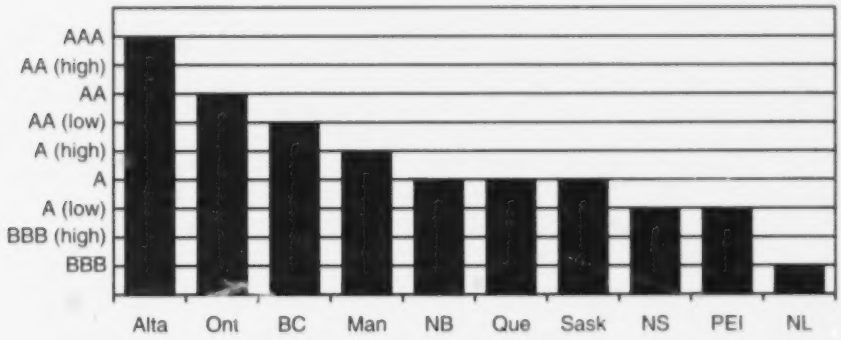
Graph 19 **Dominion Bond Rating Service Credit Ratings from 1991 to 2004**



Saskatchewan received a credit rating of BBB from 1993 to 1994 from the Dominion Bond Rating Service. Since that time, Saskatchewan's rating has gradually improved, rating A from 2000 to 2004.

14. How does Saskatchewan's credit rating compare to the credit ratings of the other provinces?

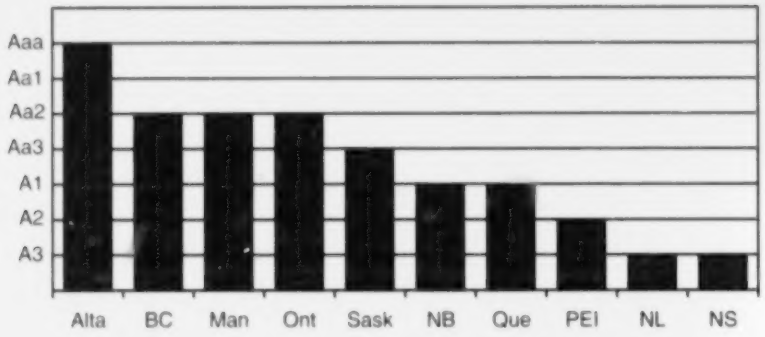
Graph 20 **Dominion Bond Rating Service Credit Ratings as at June 11, 2004**



Saskatchewan, New Brunswick, and Quebec have the fifth highest credit rating of the ten provinces, according to the ratings list of the Dominion Bond Rating Service at June 11, 2004.

Graph 21

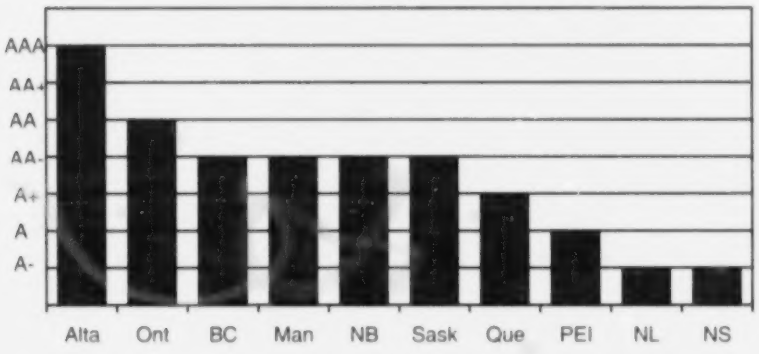
Moody's Investors Service
Credit Ratings as at June 2, 2004



Saskatchewan has the fifth highest credit rating of the ten provinces, according to the ratings list of Moody's Investors Service at June 2, 2004.

Graph 22

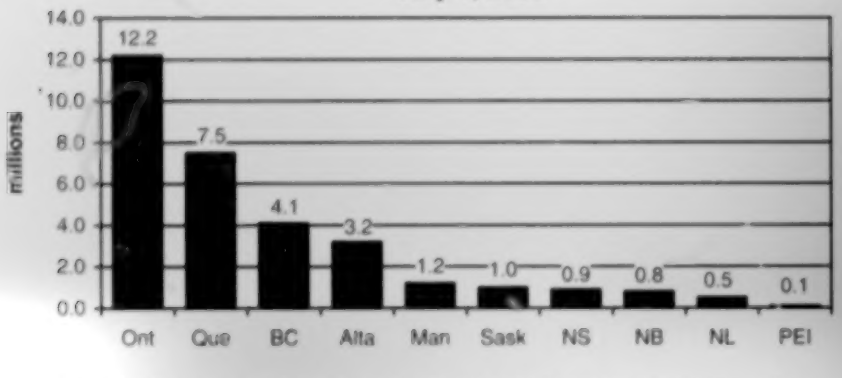
Standard & Poor's
Credit Ratings as at July 6, 2004



Saskatchewan, British Columbia, Manitoba and New Brunswick have the third highest credit rating of the ten provinces, according to the ratings list of Standard & Poor's Rating Service at July 6, 2004.

15. How does the size of Saskatchewan's population compare with other provinces?

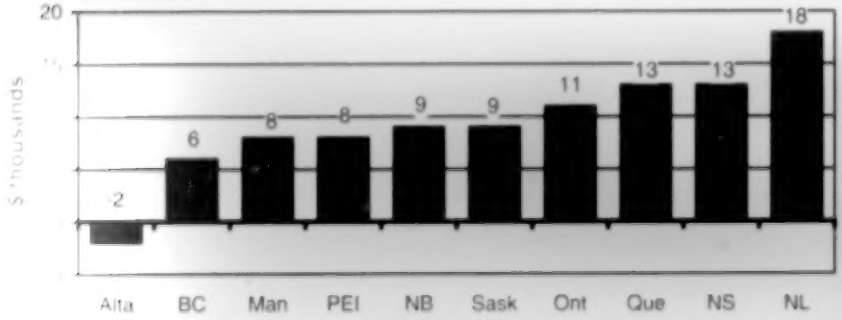
Graph 23 **Interprovincial Comparison of Population as at July 1, 2003**



Graph 23 shows wide diversity in population sizes between the provinces. Saskatchewan has the sixth largest population of the ten provinces. The information on population was obtained from Statistics Canada.

16. How does the Government's accumulated deficit (net debt) per capita compare with other provinces?

Graph 24 **Interprovincial Comparison of Accumulated Deficit (Net Debt) per Capita for 2003**

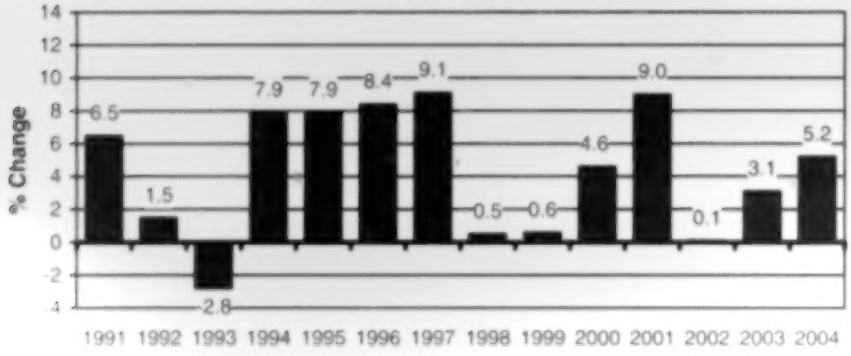


Graph 24 shows that Saskatchewan is tied with New Brunswick for the fifth lowest accumulated deficit (net debt) per capita of the provinces. The information on population was obtained from Statistics Canada and is at July 1, 2003. The accumulated deficit is as at March 31, 2003.

17. What is the annual percentage change in Saskatchewan's GDP from 1991 to 2004?

Graph 25

Annual % Change in the Province's Gross Domestic Product, 1991 to 2004



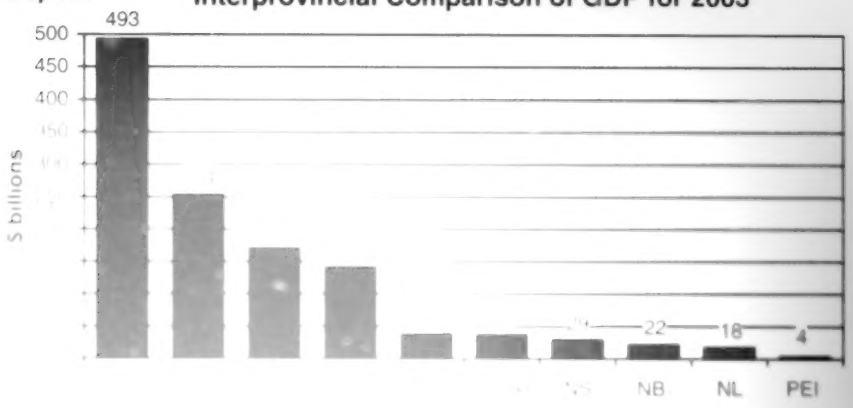
Graph 25 shows the annual percentage change in the Saskatchewan economy as measured by the change in the GDP (unadjusted for inflation). [5]The graph shows that the Saskatchewan economy is subject to significant fluctuation. The Saskatchewan economy remains vulnerable to low commodity prices, high interest rates, and adverse weather. In 2004, the Saskatchewan GDP increased by more than 5%.

18. How does the size of Saskatchewan's GDP compare with the other provinces?

Graph 26 shows an interprovincial comparison of GDP for the year ended December 31, 2003. The graph shows that Saskatchewan had the sixth largest economy of the provinces. The GDP information was obtained from Statistics Canada and is available on the Internet at http://www.statcan.ca/english/Pgdb/econ15.htm (July 2004).

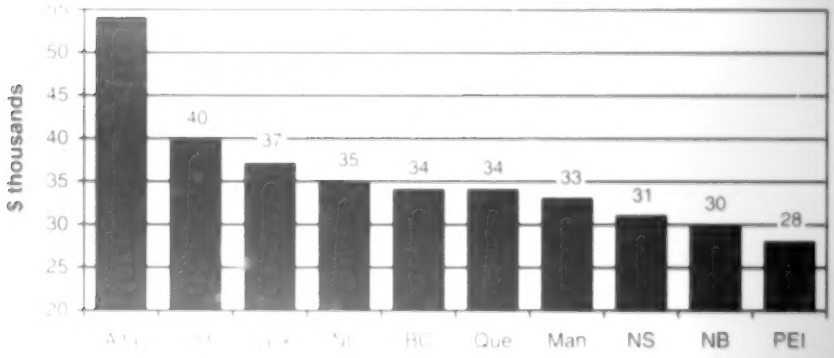
[5] See Note 2 on page 5

Graph 26 **Interprovincial Comparison of GDP for 2003**



...capita compare with the

Graph 27 Interprovincial Comparison of GDP per Capita for 2003



...interprovincial comparison of GDP per capita for the year ended December 31, 2003. GDP per capita is the provincial GDP divided by the population of the province. Saskatchewan had the third largest GDP per capita of the provinces. The information on GDP and population was obtained from Statistics Canada. The GDP information was for the year ended December 31, 2003 and the population information was as at July 1, 2003.

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Appendix 2 – More detailed financial information

(Derived from the Government's summary financial statements)

(in $ millions)

	1991	1992	1993	1994	1995	1996
	(unaudited)					
Revenue						
General Programs						
Taxes	1,988	2,163	2,276	2,536	2,643	2,854
Federal government transfers	1,603	1,706	1,447	1,488	1,512	1,046
Non-renewable resources	423	323	393	453	718	673
Income from government enterprises	362	266	249	310	313	590
Other	932	952	948	775	899	1,260
Total Revenue	5,308	5,410	5,313	5,562	6,085	6,423
Expenditure						
General Programs						
Agriculture	827	1,183	950	693	554	375
Community development	143	107	104	145	160	158
Debt charges (interest costs)	1,053	1,147	1,299	1,285	1,338	1,305
Economic development	86	125	81	79	79	148
Education	847	871	883	849	874	828
Environment and natural resources	184	20	87	151	116	192
Health	1,659	1,641	1,614	1,553	1,622	1,623
Protection of persons and property	262	274	248	178	187	195
Social services and assistance	446	507	547	550	584	588
Transportation	283	242	201	212	228	236
Other	270	969	199	148	202	212
Total Expenditure	6,060	7,086	6,213	5,843	5,944	5,860
Annual surplus (deficit)	(752)	(1,676)	(900)	(281)	141	563
Accumulated (deficit), beginning of year	(7,127)	(7,879)	(9,555)	(10,455)	(10,736)	(10,595)
Adjustment to Accumulated Deficit [2]	-	-	-	-	-	-
Accumulated (deficit), end of year	(7,879)	(9,555)	(10,455)	(10,736)	(10,595)	(10,032)

1 The Agriculture expenditure does not include significant Government support provided to the agriculture sector through tax concessions. Also, certain agriculture programs, such as Crop insurance, are cost-shared by the Saskatchewan Government. The above table represents Saskatchewan Government expenditures for agricultural programs, plus the total expenditures of the cost-shared programs administered by the Saskatchewan Government. The contributions by the Federal Government and producers, towards these cost-shared programs, are recorded as revenue by the Saskatchewan Government. Funding provided by the Federal Government in millions amounted to $176 for 2004, $505 for 2003, $235 for 2002, $108 for 2001, $288 for 2000, $91 for 1999, $74 for 1998, $84 for 1997, $74 for 1996, $207 for 1995, $219 for 1994, $289 for 1993, $405 for 1992, and $294 for 1991. Funding provided by producers in millions amounted to $126 for 2004, $86 for 2003, $67 for 2002, $54 for 2001, $71 for 2000, $76 for 1999, $82 for 1998, $107 for 1997, $93 for 1996, $201 for 1995, $230 for 1994, $281 for 1993, $261 for 1992, and $121 for 1991. During 2003-04, the government changed its accounting treatment for transfers under the Net Income Stabilization Account (NISA). This Appendix does not include $46 million of NISA transfers related to years prior to 2004.

2 During 2003-04, a government business enterprise adopted new standards of accounting for asset retirement obligations recommended by the Canadian Institute of Chartered Accountants (CICA). As a result, the Government recorded an increase in investment in government business enterprises of $181 million and a corresponding decrease in the accumulated deficit. The comparative figures have not been restated. Also, during 2003-04, the Government changed its accounting treatment for transfers under NISA resulting in a $46 million reduction in agriculture expenditure and a corresponding increase in the opening accumulated deficit. In addition, during 2002-03, a government business partnership adopted the asset and liability method of accounting for income taxes as recommended by the CICA. As a result, in 2002-03, the Government recorded an increase in other investments of $77.8 million and a corresponding decrease in the accumulated deficit. The comparative figures have not been restated.

1997	1998	1999	2000	2001	2002	2003	2004
3,125	3,116	3,155	3,224	3,203	3,023	3,369	3,399
853	675	1,088	1,553	1,029	1,518	1,414	1,269
907	781	622	943	1,293	903	1,244	1,141
549	568	652	582	642	426	453	734
791	983	784	909	924	1,070	996	1,057
6,225	6,123	6,301	7,211	7,091	6,940	7,476	7,600
284	251	323	693	322	837	1,329	674
148	152	160	158	176	204	236	255
1,224	1,175	1,111	1,026	947	891	894	928
132	96	110	109	150	141	109	133
853	855	886	901	1,019	987	989	1,053
142	119	202	168	149	156	243	189
1,682	1,761	1,931	2,174	2,223	2,424	2,558	2,730
190	203	230	262	266	299	303	310
586	700	747	785	783	784	794	786
248	273	272	273	303	337	328	329
191	212	260	256	292	363	347	360
5,680	5,797	6,232	6,805	6,630	7,423	8,130	7,747
545	326	69	406	461	(483)	(654)	(147)
(10,032)	(9,487)	(9,161)	(9,092)	(8,686)	(8,225)	(8,708)	(9,284)
-	-	-	-	-	-	78	135
(9,487)	(9,161)	(9,092)	(8,686)	(8,225)	(8,708)	(9,284)	(9,296)